GREAT KEI
MUNICIPALITY

Great Kei Local Municipality
Financial statements
for the year ended 30 June 2014

General Information

Nature of business and principal activities	Great Kei Local Municpality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no. 117 of 1998) The municipality's operations are governed by: -Municipal Finance Management Act 56 of 2003 -Municipal Structure Act 117 of 1998 -Municipal Systems Act 32 of 2000 and various other acts and regulations.
Mayoral committee	
Mayor	Tekile N (Speaker)
Chief Whip	Moli N
Councillors	Bangani L
	Dyani NN
	Jacobs SM
	Mali MT
	Mevana NV
	Mgema NP
	Mzamo MK
	Ndabambi-Gavumente L
	Ndoro W
	Ngabayena N
	Wood B
Grading of local authority	Grade 2
Accounting Officer	Mapukata ZV
Auditors	Auditor General of South Africa Chartered Accountants (S.A.) Registered Auditors

Index

The reports and statements set out below comprise the financial statements presented to the provincial legislature:

Abbreviations

AGSA	Auditor General of South Africa
DBSA	Development Bank of South Africa
EPWP	Extended Public Works Program
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IEC	Independent Electorial Commission
LED	Local Economic Development
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MSIG	Municipal Systems Improvement Grant

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page XX.

The financial statements set out on pages 4 to 81, which have been prepared on the going concern basis, were approved and signed by:

ZV Mapukata **Accounting Officer**	**Date**

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013 Restated
Assets			
Current Assets			
Inventories	4	25 824 610	25 824 610
Receivables from exchange transactions	5	8 707 948	8 537 421
Receivables from non-exchange transactions	6	5 248 295	211 734
VAT receivable	7	2 601 036	8 400 466
Cash and cash equivalents	8	2 165 936	16 641 430
		44 547 825	**59 615 661**
Non-Current Assets			
Investment property	9	111 287 677	111 287 677
Property, plant and equipment	10	213 162 887	211 764 335
Intangible assets	11	234 849	395 012
Heritage assets	12	8	8
		324 685 421	**323 447 032**
Total Assets		**369 233 246**	**383 062 693**
Liabilities			
Current Liabilities			
Other financial liabilities	14	2 112 376	333 457
Finance lease obligation	15	559 581	699 443
Payables from exchange transactions	16	16 255 556	15 208 473
Consumer deposits	17	80 503	80 503
Employee benefit obligation	13	437 000	576 000
Unspent conditional grants and receipts	18	1 955	10 405 409
Provisions	19	241 000	229 000
		19 687 971	**27 532 285**
Non-Current Liabilities			
Other financial liabilities	14	3 902 422	2 320 713
Finance lease obligation	15	1 309 258	346 430
Employee benefit obligation	13	6 647 000	4 854 000
Provisions	19	3 749 741	3 182 276
		15 608 421	**10 703 419**
Total Liabilities		**35 296 392**	**38 235 704**
Net Assets		**333 936 854**	**344 826 989**
Accumulated surplus		333 936 854	344 826 989

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013 Restated
Revenue			
Revenue from exchange transactions			
Service charges	20	5 868 618	6 788 106
Rental of facilities and equipment	21	207 426	104 333
Licences and permits		1 659 929	2 169 467
Commissions received		301 332	178 466
Other income	22	1 265 209	2 618 831
Interest received	23	4 772 192	1 491 176
Total revenue from exchange transactions		**14 074 706**	**13 350 379**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	16 431 138	12 638 208
Transfer revenue			
Government grants & subsidies	25	59 370 554	49 291 921
Fines		11 200	28 550
Total revenue from non-exchange transactions		**75 812 892**	**61 958 679**
Total revenue	26	**89 887 598**	**75 309 058**
Expenditure			
Personnel	27	(31 980 829)	(27 213 617)
Remuneration of councillors	28	(3 202 387)	(2 993 552)
Administration		(605 955)	(506 528)
Depreciation and amortisation	29	(21 744 338)	(18 890 004)
Finance costs	30	(2 355 287)	(1 116 903)
Debt impairment	31	(2 902 683)	(2 766 946)
Repairs and maintenance		(4 843 456)	(7 106 576)
Bulk purchases	32	(5 398 995)	(6 643 699)
General Expenses	33	(27 743 802)	(18 457 314)
Total expenditure		**(100 777 732)**	**(85 695 139)**
Operating deficit		**(10 890 134)**	**(10 386 081)**
Deficit for the year		**(10 890 134)**	**(10 386 081)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	562 050 381	562 050 381
Adjustments		
Prior year adjustments (refer note 40)	(206 837 311)	(206 837 311)
Balance at 01 July 2012 as restated*	**355 213 070**	**355 213 070**
Changes in net assets		
Deficit for the year	(10 386 081)	(10 386 081)
Total changes	(10 386 081)	(10 386 081)
Opening balance as previously reported	552 029 333	552 029 333
Adjustments		
Prior year adjustments (refer note 40)	(207 202 345)	(207 202 345)
Balance at 01 July 2013 as restated*	**344 826 988**	**344 826 988**
Changes in net assets		
Deficit for the year	(10 890 134)	(10 890 134)
Total changes	(10 890 134)	(10 890 134)
Balance at 30 June 2014	**333 936 854**	**333 936 854**

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013 Restated
Cash flows from operating activities			
Receipts			
Sale of goods and services		23 434 513	29 873 974
Grants		48 967 100	49 459 842
Interest income		4 772 192	1 491 176
		77 173 805	80 824 992
Payments			
Employee costs		(35 183 216)	(30 207 169)
Suppliers		(28 375 502)	(32 387 751)
Finance costs		(1 137 551)	(650 933)
		(64 696 269)	(63 245 853)
Net cash flows from operating activities	34	**12 477 536**	**17 579 139**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(29 918 884)	(27 714 625)
Purchase of other intangible assets	11	-	(243 775)
Net cash flows from investing activities		**(29 918 884)**	**(27 958 400)**
Cash flows from financing activities			
Repayment of other financial liabilities		3 360 624	(291 933)
Finance lease payments		(394 770)	(341 370)
Net cash flows from financing activities		**2 965 854**	**(633 303)**
Net increase/(decrease) in cash and cash equivalents		**(14 475 494)**	**(11 012 564)**
Cash and cash equivalents at the beginning of the year		16 641 430	27 653 994
Cash and cash equivalents at the end of the year	8	**2 165 936**	**16 641 430**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	25 121 015	(5 865 094)	**19 255 921**	5 868 618	**(13 387 303)**	Note 49
Rental of facilities and equipment	798 301	(387 662)	**410 639**	207 426	**(203 213)**	Note 49
Licences and permits	836 698	1 600 000	**2 436 698**	1 659 929	**(776 769)**	Note 49
Commissions received	1 107 754	(1 077 754)	**30 000**	301 332	**271 332**	Note 49
Other income	7 825 071	(5 078 230)	**2 746 841**	1 265 209	**(1 481 632)**	Note 49
Interest received	2 555 526	1 544 474	**4 100 000**	4 772 192	**672 192**	Note 49
Total revenue from exchange transactions	**38 244 365**	**(9 264 266)**	**28 980 099**	**14 074 706**	**(14 905 393)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	19 651 384	-	**19 651 384**	16 431 138	**(3 220 246)**	Note 49
Government grants & subsidies	50 311 000	10 299 831	**60 610 831**	59 370 554	**(1 240 277)**	Note 49
Transfer revenue						
Fines	158 998	(136 998)	**22 000**	11 200	**(10 800)**	Note 49
Total revenue from non-exchange transactions	**70 121 382**	**10 162 833**	**80 284 215**	**75 812 892**	**(4 471 323)**	
Total revenue	**108 365 747**	**898 567**	**109 264 314**	**89 887 598**	**(19 376 716)**	
Expenditure						
Personnel	(41 895 296)	11 909 347	**(29 985 949)**	(31 980 829)	**(1 994 880)**	Note 49
Remuneration of councillors	(3 431 117)	150 000	**(3 281 117)**	(3 202 387)	**78 730**	Note 49
Depreciation and amortisation	(15 000 000)	-	**(15 000 000)**	(21 744 338)	**(6 744 338)**	Note 49
Finance costs	(540 000)	(629 491)	**(1 169 491)**	(2 355 287)	**(1 185 796)**	Note 49
Debt impairment	(4 000 000)	-	**(4 000 000)**	(2 902 683)	**1 097 317**	Note 49
Repairs and maintenance	(8 176 728)	1 802 728	**(6 374 000)**	(4 843 456)	**1 530 544**	Note 49
Bulk purchases	(6 500 000)	-	**(6 500 000)**	(5 398 995)	**1 101 005**	Note 49
Contracted Services	(5 594)	5 594	**-**	-	**-**	Note 49
General Expenses	(26 909 069)	(3 421 551)	**(30 330 620)**	(28 349 757)	**1 980 863**	Note 49
Total expenditure	**(106 457 804)**	**9 816 627**	**(96 641 177)**	**(100 777 732)**	**(4 136 555)**	
Deficit before taxation	**1 907 943**	**10 715 194**	**12 623 137**	**(10 890 134)**	**(23 513 271)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**1 907 943**	**10 715 194**	**12 623 137**	**(10 890 134)**	**(23 513 271)**	

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2014											
Financial Performance											
Property rates	19 651 384	-	19 651 384	-		19 651 384	16 431 138		(3 220 246)	84 %	84 %
Service charges	25 121 015	(5 865 094)	19 255 921	-		19 255 921	5 868 618		(13 387 303)	30 %	23 %
Investment revenue	2 555 526	1 544 474	4 100 000	-		4 100 000	4 772 192		672 192	116 %	187 %
Transfers recognised - operational	36 615 000	(1 572 700)	35 042 300	-		35 042 300	37 574 645		2 532 345	107 %	103 %
Other own revenue	10 726 822	(5 080 644)	5 646 178	-		5 646 178	3 445 096		(2 201 082)	61 %	32 %
Total revenue (excluding capital transfers and contributions)	**94 669 747**	**(10 973 964)**	**83 695 783**	**-**		**83 695 783**	**68 091 689**		**(15 604 094)**	**81 %**	**72 %**
Employee costs	(41 895 296)	11 909 347	(29 985 949)	-	-	(29 985 949)	(31 980 829)	(1 994 880)	(1 994 880)	107 %	76 %
Remuneration of councillors	(3 431 117)	150 000	(3 281 117)	-	-	(3 281 117)	(3 202 387)	-	78 730	98 %	93 %
Debt impairment	(4 000 000)	-	(4 000 000)			(4 000 000)	(2 902 683)	-	1 097 317	73 %	73 %
Depreciation and asset impairment	(15 000 000)	-	(15 000 000)			(15 000 000)	(21 744 338)	(6 744 338)	(6 744 338)	145 %	145 %
Finance charges	(540 000)	(629 491)	(1 169 491)	-	-	(1 169 491)	(2 355 287)	(1 185 796)	(1 185 796)	201 %	436 %
Materials and bulk purchases	(6 500 000)	-	(6 500 000)	-	-	(6 500 000)	(5 398 995)	-	1 101 005	83 %	83 %
Other expenditure	(35 091 391)	(1 613 229)	(36 704 620)	-	-	(36 704 620)	(27 743 802)	-	8 960 818	76 %	79 %
Total expenditure	**(106 457 804)**	**9 816 627**	**(96 641 177)**	**-**	**-**	**(96 641 177)**	**(95 328 321)**	**(9 925 014)**	**1 312 856**	**99 %**	**90 %**
Surplus/(Deficit)	**(11 788 057)**	**(1 157 337)**	**(12 945 394)**	**-**		**(12 945 394)**	**(27 236 632)**		**(14 291 238)**	**210 %**	**231 %**

Appropriation Statement

Figures in Rand

	Original budget	**Budget adjustments (i.t.o. s28 and s31 of the MFMA)**	**Final adjustments budget**	**Shifting of funds (i.t.o. s31 of the MFMA)**	**Virement (i.t.o. council approved policy)**	**Final budget**	**Actual outcome**	**Unauthorised expenditure**	**Variance**	**Actual outcome as % of final budget**	**Actual outcome as % of original budget**
Transfers recognised - capital	13 696 000	8 907 131	22 603 131	-		22 603 131	21 795 909		(807 222)	96 %	159 %
Surplus (Deficit) after capital transfers and contributions	**1 907 943**	**7 749 794**	**9 657 737**	**-**		**9 657 737**	**(5 440 723)**		**(15 098 460)**	**(56)%**	**(285)%**
Surplus/(Deficit) for the year	**1 907 943**	**7 749 794**	**9 657 737**	**-**		**9 657 737**	**(5 440 723)**		**(15 098 460)**	**(56)%**	**(285)%**

Capital expenditure and funds sources

Total capital expenditure	20 552 677	9 634 286	30 186 963	-		30 186 963	23 042 787		(7 144 176)	76 %	112 %
Sources of capital funds											
Transfers recognised - capital	13 696 000	8 907 131	22 603 131	-		22 603 131	21 685 616		(917 515)	96 %	158 %

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

Those standards of GRAP and interpretations of such standards applicable to the operations of the municipality, are therfore as follows:

Standards Issued and Effective:

- GRAP 1 - Presenttion of Financial Statements (as revised in 2010)
- GRAP 2 - Cash Flow Statements (as revised in 2010)
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)
- GRAP 5 - Borrowing costs
- GRAP 9 - Revenue from Exchange Transactions (as revised in 2010)
- GRAP 11 - Construction Contracts (as revised in 2010)
- GRAP 12 - Inventories (as revised in 2010)
- GRAP 13 - Leases (as revised in 2010)
- GRAP 14 - Events After Reporting Date (as revised in 2010)
- GRAP 16 - Investment Property (as revised in 2010)
- GRAP 17 - Property, Plant and Equipment (as revised in 2010)
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)
- GRAP 21 - Impairment of Non-cash Generating Assets
- GRAP 23 - Revenue From Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 25 - Employee Benefits
- GRAP 26 - Impairment of Cash Generating Assets
- GRAP 31 - Intangible Assets (replace GRAP 102)
- GRAP 100 - Non-current Assets Held For Sale and Discontinued Opertions (as revised in 2010)
- GRAP 102 - Intangible Assets
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments

Standards Issued, Future Effective Date - Can Base Accounting Policy on, or early adopt:

- GRAP 18 - Segment Reporting
- GRAP 20 - Related Party Disclosures

- Improvements to standards of GRAP

Interpretations:

- IGRAP 1 - Applying the Probability Test on Initial Recognition of Exchange Revenue
- IGRAP 2 - Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IGRAP 3 - Determining whether an Arrangement Contains a Lease
- IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Evironmental Rehabilitation Funds
- IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 10 - Assets Received from Customers
- IGRAP 13 - Operating Leases - incentives
- IGRAP 14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 16 - Intangible Assets - Website Costs (effective 1 April 2013)

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality and are rounded to the nearest Rand.

1.2 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Trade receivables and other receivables

The municipality assesses its trade receivables and other receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and other receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that key assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 13.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	**Useful life**
Property - land	indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

1.5 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Land	Indefinite
Buildings	30 Years
Infrastructure	
• Tarred roads and paving	30 years
• Access roads	3 years
• Electricity	10 years
Community	
• Building	30 years
• Recreational facilities	20-30 years
• Halls	30 years
• Parks and gardens	20-30 years
Other property, plant and equipment	
• Plant and machinery	10 years
• Furniture and fittings	7 years
• Motor vehicles	5 years
• Office equipment	5 years
Landfill sites	4 years
Other equipment	10 years

The residual value, the useful life and depreciation method of each asset are reviewed at least at each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

1.5 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Accounting Policies

1.7 Intangible assets (continued)

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software	3 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

Accounting Policies

1.8 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

Transitional provision

The municipality changed its accounting policy for heritage assets in the 2012/2013 financial year. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure heritage assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Heritage assets. Heritage assets have accordingly been recognised at provisional amounts of R1 each, as disclosed in 12. The transitional provision expires on 2015/06/30.

Until such time as the measurement period expires and heritage assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Heritage assets, the municipality need not comply with the Standards of GRAP on (to the extent that these Standards prescribe requirements for heritage assets):
- Presentation of Financial Statements (GRAP 1),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18) (once effective),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Heritage assets implies that any associated presentation and disclosure requirements need not be complied with for heritage assets not measured in accordance with the requirements of the Standard of GRAP on Heritage assets.

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the Municipality.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the Municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

1.9 Financial instruments (continued)

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the Municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivable from exchange transactions	Financial asset measured at amortised cost
Other receivables from non-exchange transactions	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Long term borrowings	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Accounting Policies

1.9 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The Municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

Accounting Policies

1.9 Financial instruments (continued)

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

1.10 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

1.12 Impairment of cash-generating assets (continued)

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

1.12 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.12 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

1.14 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

Accounting Policies

1.14 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.14 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.15 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

1.15 Provisions and contingencies (continued)

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is where an inflow of economic benefits is probable.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

1.16 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of entity assets yielding interest or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest method.

Service charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognisd as revenue without being invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on average monthly consumption of consumers.

1.16 Revenue from exchange transactions (continued)

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tarrif to each property that has improvements. The tarrifs are determined per category if property usage and levied monthly based on the number of refuse containers on each property, regardless of whether or not the containers are emptied during the month.

Finance income

Interest earned on investments is recognised in the statement of financial performance on the time apportionment basis taking into account the effective yield on the investment.

Tarrif charges

Revenue arising from the application of approved tarrifs is recognised when the service is rendered by applying the relevant authorised tarrif. This includes the issue of licenses and permits.

Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised over the term of the lease agreement , where such terms span over more than one financial year a straight-line basis is used.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

1.17 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Rates, including collection charges, penalties and interest

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforcable. Penalty interest on unpaid rates is recognised on a time apportionment basis with reference to the principle amount receivable and effective interest rate applicable. Rebates are granted to certain categories of rate payers and are deducted from the revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Public contributions

Revenue from public contributions is recognised on a cash basis when all the conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such item of property, plant and equipment are brought into use.

Where contributions have been received, but the conditions have not yet been met, a liability is recognised.

Government grants

1.17 Revenue from non-exchange transactions (continued)

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria or conditions attached, where conditions have not been met, a liability is raised.

Governmet grants that are received as compensation for expenses or losses incurred or for the purpose of giving immediate financial support with no future related costs are recognised in the statement of financial performance in the year in which they have been received.

Interest earned on investments is treated in accordance with the grant conditions. If it is payable to the founder it is recorded as part of the creditor, and if it is the municipality's interest, it is recognised as interest earned in the statement of financial performance in the period in which it is received.

Government grants are recognised as revenue when:
-it is probable that economic benefits or service potential associated with the transaction will flow to the municipality;
-the amount of revenue can be measured reliably; and
-to the extent that the conditions have been discharged and there has been compliance with any restrictions associated with the grant.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.12 and 1.13. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification are disclosed in the comparative figure note 41 to the financial statements.

1.21 Unauthorised expenditure

Unauthorised expenditure means:

1.21 Unauthorised expenditure (continued)

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations enbodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liabilitiy is recognised.

1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2013/07/01 to 2014/06/30.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Comparative information is not required.

1.26 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Accounting Policies

1.26 Related parties (continued)

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.27 Commitments

Items are classified as a commitment when the Municipality has committed itself to future transactions that will normally result in an outflow of resources embodying economic benefits or service potential. A commitment is disclosed to the extent that it has not been recognised anywhere else in the financial statements.

At the end of each financial period, the Municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed in note 37 - commitments in the financial statements.

1.28 Changes in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimates and errors, requirementsexcept to the extent that it is impracticable to determine the period specific effects or accumulative effect of the change in policy. In such cases the Municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retospective restatement is practicable. Details of the changes in accounting policy are disclosed in note 2 to the annual financial statements.

Changes in accounting estimate are applied prospectively in accordance with GRAP 3 requirements. Details of changes in accounting estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospecively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative affect of the error. In such cases the Municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior period errors are disclosed in note 40 to the financial statements.

1.29 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

1.30 Events after reporting date

Events after reporting date that are classified as adjusting events have been accounted for in the financial statements. Non-adjusting events have been disclosed in the notes to the financial statements.

1.31 Value Added Tax (VAT)

Output VAT is levied on taxable supplies in terms of the Value Added Tax Act.

Input VAT is claimed on those supplies allowed in terms of the Value Added Tax Act.

Where input VAT exceeds output VAT the Municipality recognises a receivable for VAT.

Where output VAT exceeds input VAT the Municipality would recognise a payable for VAT.

The Municipality accounts for VAT on a payments basis.

2. Changes in accounting policy

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- GRAP 25: Employee benefits

GRAP 25: Employee benefits

During the year, the municipality changed its accounting policy with respect to the treatment of employee benefits. In order to conform with the benchmark treatment in of GRAP 25: Employee benefits. The municipality now recognises employee benefits in terms of GRAP 25.

This change in accountig policy has not had an impact on the financial information or disclosure included in the notes to the annual financial statements.

Notes to the Financial Statements

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity’s decision to terminate an employee’s employment before the normal retirement date; or
  - an employee’s decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;

Notes to the Financial Statements

3. New standards and interpretations (continued)

- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality has adopted the standard for the first time in the 2014 financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 1 (as revised 2012): Presentation of Financial Statements

Paragraphs .108 and .109 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Statement of Financial Performance as well as the Statement of Changes in Net Assets.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is not material.

GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors

Paragraphs .17 and .18 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Changes in Accounting Policies.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is not material.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions

3. New standards and interpretations (continued)

Paragraphs .11 and .13 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Scope and Definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is not material.

GRAP 12 (as revised 2012): Inventories

Paragraph .30 was amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is not material.

GRAP 13 (as revised 2012): Leases

Paragraphs .38 and .42 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is not material.

GRAP 16 (as revised 2012): Investment Property

Paragraphs .12, .15, .34, .76, .84 and .87 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Measurement at recognition, Disposals and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is not material.

GRAP 17 (as revised 2012): Property, Plant and Equipment

Paragraphs .44, .45, .72, .75, .79 and .85 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition, Derecognition and Disclosure.

Notes to the Financial Statements

3. New standards and interpretations (continued)

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is not material.

GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)

Numerous paragraphs were amended by the improvements to the Standards of GRAP issued previously:

Changes made comprise 3 areas that can be summarised as follows:
- Consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31,
- The deletion of guidance and examples from Interpretations issues by the IASB previously included in GRAP102,
- Changes to ensure consistency between the Standards, or to clarify existing principles.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is not material.

IGRAP16: Intangible assets website costs

An entity may incur internal expenditure on the development and operation of its own website for internal or external access. A website designed for external access may be used for various purposes such as to disseminate information, for example annul reports and budgets, create awareness of services, request comment on draft legislation, promote and advertise an entity's own services and products, for example the E-filing facility of SARS that enables taxpayers to complete their annual tax assessments, provide electronic services and list approved supplier details. A website designed for internal access may be used to store an entity's information, for example policies and operating procedures, and details of users of a service, and other relevant information.

The stages of a website's development can be described as follows:
- Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
- Application and infrastructure development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
- Graphical design development – includes designing the appearance of web pages.
- Content development – includes creating, purchasing, preparing and uploading information, either text or graphic, on the website before the completion of the website's development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.

Once development of a website has been completed, the operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the website.

When accounting for internal expenditure on the development and operation of an entity's own website for internal or external access, the issues are:
- whether the website is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets; and
- the appropriate accounting treatment of such expenditure.

Notes to the Financial Statements

3. New standards and interpretations (continued)

This Interpretation of Standards of GRAP does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and internet connections) of a website. Such expenditure is accounted for under the Standard of GRAP on Property, Plant and Equipment. Additionally, when an entity incurs expenditure on an internet service provider hosting the entity's website, the expenditure is recognised as an expense under the paragraph .93 in the Standard of GRAP on Presentation of Financial Statements and the Framework for the Preparation and Presentation of Financial Statements when the services are received.

The Standard of GRAP on Intangible Assets does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see the Standards of GRAP on Construction Contracts and Inventories) or leases that fall within the scope of the Standard of GRAP on Leases. Accordingly, this Interpretation of Standards of GRAP does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity. When a website is leased under an operating lease, the lessor applies this Interpretation of Standards of GRAP. When a website is leased under a finance lease, the lessee applies this Interpretation of Standards of GRAP after initial recognition of the leased asset.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is not material.

3.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 105: Transfers of functions between entities under common control

Notes to the Financial Statements

3. New standards and interpretations (continued)

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity’s financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

Notes to the Financial Statements

3. New standards and interpretations (continued)

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:
- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:
- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue

Notes to the Financial Statements

3. New standards and interpretations (continued)

Paragraphs .03, .04, .05, .06, .08 and .10, were amended and paragraph .02 was added in the Interpretation of the Standards of GRAP.

This Interpretation of the Standards of GRAP now addresses the manner in which an entity applies the probability test on initial recognition of both:

(a) exchange revenue in accordance with the Standard of GRAP on Revenue from Exchange Transactions and

(b) non-exchange revenue in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

This Interpretation of the Standards of GRAP supersedes the Interpretation of the Standards of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue issued in 2009.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

Notes to the Financial Statements

3. New standards and interpretations (continued)

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

4. Inventories

Land designated for housing	25 824 610	25 824 610

5. Receivables from exchange transactions

Trade debtors	7 705 881	7 003 636
Sundry debtors	617 331	561 174
Unallocated receipts	384 736	415 420
Salaries suspense account	-	557 191
	8 707 948	**8 537 421**

Debtors by debtor type	**0-30 Days**	**60 Days**	**> 90 Days**	**Total**
Government	315 542	44 270	418 190	778 002
Residents	3 627 563	286 666	24 421 118	28 335 347
Industries	928 867	100 571	1 894 585	2 924 023
	4 871 972	**431 507**	**26 733 893**	**32 037 372**

Debtors by revenue type	**0-30 Days**	**60 Days**	**>90 Days**	**Total**
Electricity	447 878	132 513	11 057 752	11 638 143
Refuse removal	1 366 403	298 994	15 676 141	17 341 538
Interest	3 057 691	-	-	3 057 691
	4 871 972	**431 507**	**26 733 893**	**32 037 372**

Net trade debtors		
Gross trade receivables	28 332 469	25 818 807
Provision for impairment	(20 626 588)	(18 815 171)
	7 705 881	**7 003 636**

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings listed below:

Trade receivables

Counterparties with external credit rating		
A (Government)	4 160 068	46 835 537
B (Business)	3 681 594	523 723
C (Domestic and other)	46 259 052	45 201
Less receivables from non-exchange transactions	(22 063 343)	(25 025 448)
	32 037 371	**22 379 013**

A - The debtors are of good credit quality and no default is expected.

B - The debtors are usually good payers but there is a possibility that the debtors may not be able to pay on time.

C - These debtors usually pay but have previously paid late and therefore there is a possibility that these debtors will not be recoverable.

Figures in Rand	2014	2013 Restated

5. Receivables from exchange transactions (continued)

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 1 month past due are not considered to be impaired. At 30 June 2014, R1 305 555 (2013: R 3 775 576) were past due but not impaired.

The ageing of amounts due but not impaired is as follows:

1 month past due	460 089	1 517 971
2 months past due	431 507	1 207 627
3 months past due	413 959	1 049 978
	1 305 555	**3 775 576**

Trade and other receivables impaired

As of 30 June 2014, trade and other receivables of R 28 332 469 (2013: R 25 818 807) were impaired and provided for.

The amount of the provision was R 20 626 588 as of 30 June 2014 (2013: R 18 815 171).

Reconciliation of provision for impairment of trade and other receivables

Opening balance	18 815 171	16 708 651
Provision for impairment	1 811 417	2 106 520
	20 626 588	**18 815 171**

6. Receivables from non-exchange transactions

Assessment rates	31 193 645	25 025 448
Debt impairment	(25 945 350)	(24 813 714)
	5 248 295	**211 734**

Debtors by type	**0-30 Days**	**60 Days**	**> 90 Days**	**Total**
Government	260 080	105 128	2 808 822	3 174 030
Residents	1 351 733	511 175	16 060 797	17 923 705
Industries	222 845	100 656	642 107	965 608
	1 834 658	**716 959**	**19 511 726**	**22 063 343**

Debtors by revenue type	**0-30 Days**	**60 Days**	**>90 Days**	**Total**
Rates	1 834 657	716 960	19 511 726	22 063 343

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

6. Receivables from non-exchange transactions (continued)

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Receivables from non-exchange transactions

Counterparties with external credit rating		
A (Government)	4 160 068	46 835 537
B (Business)	3 681 594	523 723
C (Domestic and other)	46 259 052	45 201
Less receivables from exchange transactions	(32 037 372)	(25 025 448)
	22 063 342	**22 379 013**

A – The debtors are of good credit quality and no default as expected.

B – The debtors are usually good payers but there is a possibility that the debtor may not be able to pay on time.

C – These debtors usually pay, but have previously paid late and therefore there is a possibility that these debtors will not be recoverable.

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2014, R 2 187 163 (2013: R 2 043 016) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	780 957	821 395
2 months past due	716 960	653 464
3 months past due	689 246	568 157
	2 187 163	**2 043 016**

Receivables from non-exchange transactions impaired

As of 30 June 2014, other receivables from non-exchange transactions of R25 945 350 (2013: R24 813 714) were impaired and provided for.

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	24 813 714	17 682 750
Provision for impairment	1 131 636	7 130 964
	25 945 350	**24 813 714**

7. VAT receivable

VAT	2 601 036	8 400 466

The municipality is on a cash or payment basis for VAT purposes and is classified as Category C.

8. Cash and cash equivalents

Cash and cash equivalents consist of bank balances for current accounts and call deposit accounts:

Figures in Rand	2014	2013 Restated

8. Cash and cash equivalents (continued)

Bank balances	1 623 767	14 395 300
Short-term deposits	542 169	2 246 130
	2 165 936	**16 641 430**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
Standard Bank - 280720963 (Primary account)	1 687 298	2 132 454	1 521 256	1 834 680	1 962 708	2 662 790
Standard Bank - 285973452	247 018	306 064	1 726 925	247 018	306 084	1 726 924
Standard Bank - 285946110	5 701	7 872	1 855 556	5 701	7 872	1 855 555
Standard Bank - 285977334	12 829	412 986	1 694 214	12 829	412 966	1 694 214
Standard Bank - 388520523-401	1 543	1 523	1 509	1 543	1 523	1 509
ABSA Bank - 9079485834	10 834	10 812	10 801	10 834	10 810	10 800
Standard Bank - 388528672-001	-	-	1 240 952	-	-	1 240 952
Standard Bank - 388528672-004	23 726	1 108 647	-	23 726	1 108 647	-
Standard Bank - 388526734-003	1 590	426 294	623 512	1 590	426 294	623 512
Standard Bank - 388527544 - 402	1 380	32 380	5 170 181	1 380	32 380	5 170 181
Standard Bank - 388523786-001	1 482	406 987	2 207 478	1 482	406 987	2 207 478
ABSA Bank - 9059902802	-	767 563	740 908	-	767 563	740 908
Standard Bank - 388529768-402	23 049	11 017 631	8 894 716	23 049	11 017 631	8 894 716
Standard Bank - 388528672-002	2 104	179 965	824 456	2 104	179 965	824 455
Total	**2 018 554**	**16 811 178**	**26 512 464**	**2 165 936**	**16 641 430**	**27 653 994**

9. Investment property

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	111 287 677	-	111 287 677	111 287 677	-	111 287 677

Reconciliation of investment property - 2014

	Opening balance	Total
Investment property	111 287 677	111 287 677

Reconciliation of investment property - 2013

	Opening balance	Total
Investment property	111 287 677	111 287 677

9. Investment property (continued)

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

10. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	38 254 100	-	38 254 100	38 254 100	-	38 254 100
Buildings	37 837 292	(15 685 258)	22 152 034	37 837 294	(13 480 190)	24 357 104
Infrastructure	181 888 161	(79 891 007)	101 997 154	178 468 037	(64 513 317)	113 954 720
Community	36 685 253	(15 840 725)	20 844 528	33 388 197	(13 563 864)	19 824 333
Other property, plant and equipment	7 969 798	(4 174 078)	3 795 720	4 999 811	(2 993 054)	2 006 757
Work in progress	24 282 812	-	24 282 812	11 225 467	-	11 225 467
Finance lease assets	1 447 915	(1 107 151)	340 764	1 447 915	(747 673)	700 242
Landfill site asset	2 047 937	(552 162)	1 495 775	1 809 720	(368 108)	1 441 612
Total	**330 413 268**	**(117 250 381)**	**213 162 887**	**307 430 541**	**(95 666 206)**	**211 764 335**

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Transfers	Depreciation	Total
Land	38 254 100	-	-	-	38 254 100
Buildings	24 357 104	-	-	(2 205 070)	22 152 034
Infrastructure	113 954 720	3 360 064	-	(15 317 630)	101 997 154
Community	19 824 333	3 297 056	-	(2 276 861)	20 844 528
Other property, plant and equipment	2 006 757	3 030 045	-	(1 241 082)	3 795 720
Work in progress	11 225 467	19 993 502	(6 936 157)	-	24 282 812
Finance lease asset	700 242	-	-	(359 478)	340 764
Landfill site asset	1 441 612	238 217	-	(184 054)	1 495 775
	211 764 335	**29 918 884**	**(6 936 157)**	**(21 584 175)**	**213 162 887**

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Transfers	Depreciation	Total
Land	38 254 100	-	-	-	38 254 100
Buildings	26 603 802	-	-	(2 246 698)	24 357 104
Infrastructure	119 018 908	7 891 234	-	(12 955 422)	113 954 720
Community	19 357 223	2 728 611	-	(2 261 501)	19 824 333
Other property, plant and equipment	1 454 568	1 366 136	-	(813 947)	2 006 757
Work in progress	7 214 696	15 400 429	(11 389 658)	-	11 225 467
Finance lease assets	701 306	328 215	-	(329 279)	700 242
Landfill site asset	1 625 666	-	-	(184 054)	1 441 612
	214 230 269	**27 714 625**	**(11 389 658)**	**(18 790 901)**	**211 764 335**

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

10. Property, plant and equipment (continued)

Pledged as security

Carrying value of assets pledged as security:

	2014	2013
Land and buildings	2 697 279	2 697 279

The property ERF 125 is the municipality's head office. The property is mortgaged to DBSA for a loan advanced to the municipality.

Assets subject to finance lease (Net carrying amount)

	2014	2013
Finance lease assets	340 764	700 242

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

11. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	541 081	(306 232)	234 849	541 081	(146 069)	395 012

Reconciliation of intangible assets - 2014

	Opening balance	Amortisation	Total
Computer software	395 012	(160 163)	234 849

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software	250 339	243 775	(99 102)	395 012

12. Heritage assets

	2014			2013		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	8	-	8	8	-	8

Reconciliation of heritage assets 2014

	Opening balance	Total
Heritage assets	8	8

Reconciliation of heritage assets 2013

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

12. Heritage assets (continued)

	Opening balance	Total
Heritage assets	8	8

Transitional provisions

Heritage assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, certain heritage asset with a carrying value of R 8 (2013: R 8) was recognised at provisional amounts. Carrying amounts of heritage asset carried at provisional amounts are as follows:

Due to initial adoption of GRAP 103

Mayors Chain	1	1
Draaibosch Memorial	1	1
Town Library	1	1
Intabe'mpethu	1	1
Old Jail	1	1
Ngxingxolo River	1	1
Tyityaba Fort Warden	1	1
St John Church	1	1

Steps taken to establish the values of heritage asset recognised at provisional amounts due to the initial adoption of GRAP 103 will be taken during the 2014/2015 financial year.

The date at which full compliance with GRAP 103 is expected, is 01 July 2015.

13. Employee benefit obligations

Post retirement medical aid plan

The municipality provided certain post-retirement healthcare benefits by funding the medical aid of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operated an unfunded defined benefit plan for these qualifying employees. No other post retirement benefits are provided to these employees

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(5 431 000)	(3 405 000)
Current service costs	(576 000)	(401 000)
Interest cost	(519 000)	(270 000)
Net acturial gains or (losses) not recognised	(713 000)	(1 494 000)
Benefits paid	155 000	140 000
	(7 084 000)	**(5 430 000)**

Non-current liabilities	(6 647 000)	(4 854 000)
Current liabilities	(437 000)	(576 000)
	(7 084 000)	**(5 430 000)**

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

13. Employee benefit obligations (continued)

Changes in the present value of the defined benefit obligation are as follows:

	2014	2013
Opening balance	5 430 000	3 405 000
Benefits paid	(154 000)	(140 000)
Net expense recognised in the statement of financial performance	1 808 000	2 165 000
	7 084 000	**5 430 000**

Net expense recognised in the statement of financial performance

	2014	2013
Current service cost	576 000	401 000
Interest cost	519 000	270 000
Actuarial (gains) losses	713 000	1 494 000
	1 808 000	**2 165 000**

Calculation of actuarial gains and losses

	2014	2013
Actuarial (gains) losses – Obligation	713 000	1 494 000

Key assumptions used

Assumptions used at the reporting date:

	2014	2013
Discount rates used	8,94 %	9,20 %
Consumer price inflation	7,05 %	6,20 %
Medical aid contribution inflation	8,05 %	8,20 %
Net effective discount rate	0,82 %	0,92 %

Other assumptions

The value of the liabilities is particularly sensitive to the assumed rate of healthcare cost inflation. The table below sets out the sensitivity of the valuation result to a 1% increase and 1% decrease in the assumed cost inflation assumption.

	1% decrease R	Base % R	1% increase R
Defined benefit obligation	6 307 000	7 084 000	7 894 000
Plan assets	396 000	437 000	472 000
Surplus (deficit)	574 000	646 000	720 000

14. Other financial liabilities

	2014	2013
At amortised cost		
AGSA Debt arrangement	3 219 381	-
The amount owed to the AGSA was ring fenced to include the amount owed to the AGSA as at 31 May 2014, bears interest at prime and is payable over 24 months in monthly instalments of R136 473 until April 2016.		
Amatole District Municipality Debt arrangement	441 224	-
During the 2013/2014 financial year a debt arrangement was entered into whereby the Municipality undertakes to repay monthly instalments of R98 497 over and above the continuing monthly charge until such time as the outstanding balance is repaid. This arrangement does not bear interest.		
Long term borrowings	2 354 193	2 654 170
The DBSA loan bears interest at 13% and is redeemable on 31 March 2019.		
Total other financial liabilities	**6 014 798**	**2 654 170**

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

14. Other financial liabilities (continued)

Non-current liabilities		
At amortised cost	3 902 422	2 320 713
Current liabilities		
At amortised cost	2 112 376	333 457

15. Finance lease obligation

Minimum lease payments due		
- within one year	568 546	742 816
- in second to fifth year inclusive	1 659 586	515 295
	2 228 132	1 258 111
less: future finance charges	(359 293)	(212 238)
Present value of minimum lease payments	**1 868 839**	**1 045 873**
Present value of minimum lease payments due		
- within one year	559 581	699 443
- in second to fifth year inclusive	1 309 258	346 430
	1 868 839	**1 045 873**
Non-current liabilities	1 309 258	346 430
Current liabilities	559 581	699 443
	1 868 839	**1 045 873**

It is municipality policy to lease certain equipment under finance leases.

The lease terms of finance lease agreements vary from three to five years.

Interest rates are fixed at the contract date. Leases escalate at 10% p.a and no arrangements have been entered into for contigent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 10.

Depreciation and finance charges relating to leased assets are included in the total depreciation and finance charges respectively.

Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

Rand	1 868 839	1 045 873

For details of sensitivity of exposures to market risk related to finance lease liabilities, as well as liquidity risk refer to note 42.

The fair value of finance lease liabilities approximates their carrying amounts.

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

16. Payables from exchange transactions

Trade payables	7 440 992	8 241 490
Payments received in advanced - contract in process	5 156 218	4 877 414
Accrued leave pay	1 557 416	1 445 095
Accrued bonus	870 629	617 105
Deposits received	163 820	27 369
Salary suspense account	734 733	-
Unallocted transfer	331 748	-
	16 255 556	**15 208 473**

17. Consumer deposits

Electricity	80 503	80 503

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	-	8 404 973
Minerals and Energy Grant	-	2 000 000
Municipal Systems Infrastructure Grant	1 897	436
EPWP Grant	58	-
	1 955	**10 405 409**

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 25 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

19. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Utilised during the year	Finance cost	Total
Environmental rehabilitation	2 471 276	-	-	420 465	2 891 741
Long service bonus	940 000	285 000	(126 000)	-	1 099 000
	3 411 276	**285 000**	**(126 000)**	**420 465**	**3 990 741**

Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Finance cost	Total
Environmental rehabilitation	2 108 312	-	-	362 964	2 471 276
Long service bonus	893 000	221 000	(174 000)	-	940 000
	3 001 312	**221 000**	**(174 000)**	**362 964**	**3 411 276**

	2014	2013
Non-current liabilities	3 749 741	3 182 276
Current liabilities	241 000	229 000
	3 990 741	**3 411 276**

Environmental rehabilitation provision

The provision for the rehabilitation of the landfill sites relate to the obligation to rehabilitate the landfill site used for waste disposal. It is calculated as the present value of the future obligation, discounted at 7% over the remaining 4 year period after which the site is required to be rehabilitated.

The most critical **assumptions** for estimating the rehabilitation costs of the Qumrha landfill were:

That the lifespan of the site from July 2014 will be 4 years as per the directive from the Department of Economic Development, Environmental Affairs and Tourism.

That 40% of the site's area was used in 2012 based on the recommendations by the Department of Environmental Affairs that the wetland should not be utilised (however, the wetland area was being utilised as part of the airspace (in 2012), that is before the recommendation was made.

20. Service charges

	2014	2013
Sale of electricity	3 639 500	3 264 132
Refuse removal	2 229 118	3 523 974
	5 868 618	**6 788 106**

21. Rental of facilities and equipment

	2014	2013
Premises		
Premises	58 047	22 432
Facilities and equipment		
Rental of facilities	149 379	81 901
	207 426	**104 333**

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

22. Other income

Other income	995 910	2 291 763
Building plan fees	144 665	186 601
LG SETA training allowance	113 106	124 770
Clearance fees	11 528	15 697
	1 265 209	**2 618 831**

Other Income Comprises:		
Sundry Revenue	318 865	1 842 290
Connection Fees	174 262	250 853
Library Subsidy	410 128	410 000
Burial and Cemetery	6 635	3 288
Basic Electricity	86 020	88 664
Medical Aid	-	23 737
	995 910	**2 618 832**

23. Interest received

Interest revenue		
Interest from investments	1 088 274	1 482 037
Bank	-	9 139
Interest charged on trade and other receivables	3 683 918	-
	4 772 192	**1 491 176**

24. Property rates

Rates received

Property rates	16 431 138	12 638 208

Valuations

Residential	2 144 390 096	3 245 236 194
Commercial	155 364 165	134 314 600
State	107 071 266	120 243 409
Municipal	298 565 212	291 811 412
Small holdings and farms	908 000 920	844 564 343
Place of worship	6 246 500	6 246 500
	3 619 638 159	**4 642 416 458**

General valuations on land and buildings are performed every 4 years and supplementary valuations are performed annually. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions

Rates are levied on a monthly basis.

The new general valuation will be implemented on 01 September 2014.

Figures in Rand	2014	2013 Restated

25. Government grants and subsidies

Operating grants		
Equitable share	33 921 973	31 398 000
Municipal Systems Improvement Grant	888 630	799 564
Financial Management Grant	1 650 000	1 500 000
DBSA Grant	-	1 000 000
EPWP Grant	999 942	-
IEC Election Grant	2 100	-
LED Subsidy	112 000	-
	37 574 645	34 697 564
Capital grants		
Municipal Infrastructure Grant (Capital)	21 795 909	14 594 357
	21 795 909	14 594 357
	59 370 554	**49 291 921**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	25 336 581	17 893 921
Unconditional grants received	34 033 973	31 398 000
	59 370 554	**49 291 921**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. There are no conditions attached to the equitable share and as such is recognised as revenue when received.

Municipal Infrastructure Grant

Balance unspent at beginning of year	8 404 973	8 573 330
Current-year receipts	13 696 000	14 426 000
Conditions met - transferred to revenue	(21 796 000)	(14 594 357)
Deductions from Equitable share receivable	(304 973)	-
	-	**8 404 973**

Conditions still to be met - remain liabilities (see note 18).

The grant is allocated for the construction of infratructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure.

Minerals and Energy Grant

Balance unspent at beginning of year	2 000 000	2 000 000
Deductions from Equitable share receivable	(2 000 000)	-
	-	**2 000 000**

Conditions still to be met - remain liabilities (see note 18).

The Minerals and Energy Grant is an provided by the Department of Energy to facilitate for the upgrading of electrical infrastructure within the municipality.

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

25. Government grants and subsidies (continued)

Municipal Systems Improvement Grant

Balance unspent at beginning of year	436	-
Current-year receipts	890 000	800 000
Conditions met - transferred to revenue	(888 539)	(799 564)
	1 897	**436**

Conditions still to be met - remain liabilities (see note 18).

The MSIG was used for building in-house capacity to perform municipal functions and stabilise institutional and governance systems.

Financial Management Grant

Current-year receipts	1 650 000	1 500 000
Conditions met - transferred to revenue	(1 650 000)	(1 500 000)
	-	**-**

Conditions met.

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

EPWP Grant

Current-year receipts	1 000 000	-
Conditions met - transferred to revenue	(999 942)	-
	58	**-**

Conditions still to be met - remain liabilities (see note 18).

This program is aimed at providing poverty and income relief through the creation of temporary work opportunities.

DBSA Grant

Current-year receipts	-	1 000 000
Conditions met - transferred to revenue	-	(1 000 000)
	-	**-**

Conditions met.

The grant is for provision of infrastructure financing, the DBSA seeks to support the development of projects critical to the country's development agenda and activities are directed to support, amongst other, the financing of energy generation, water and road infrastructures, as well as municipal infrastructure critical to the delivery of electricity, water, sanitation and refuse to households.

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

25. Government grants and subsidies (continued)

IEC Election Grant

Current-year receipts	2 100	-
Conditions met - transferred to revenue	(2 100)	-
	-	-

Conditions met.

This grant was provided to assist with the preparation of the 2014 general elections.

LED Subsidy

Current-year receipts	112 000	-
Conditions met - transferred to revenue	(112 000)	-
	-	-

Conditions met.

This subsidy is intended to assist in the funding of development projects and programmes.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

26. Revenue

Service charges	5 868 618	6 788 106
Rental of facilities and equipment	207 426	104 333
Licences and permits	1 659 929	2 169 467
Commissions received	301 332	178 466
Other income	1 265 209	2 618 831
Interest received	4 772 192	1 491 176
Property rates	16 431 138	12 638 208
Government grants & subsidies	59 370 554	49 291 921
Fines	11 200	28 550
	89 887 598	**75 309 058**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	5 868 618	6 788 106
Rental of facilities and equipment	207 426	104 333
Licences and permits	1 659 929	2 169 467
Commissions received	301 332	178 466
Other income	1 265 209	2 618 831
Interest received	4 772 192	1 491 176
	14 074 706	**13 350 379**

Figures in Rand	2014	2013 Restated

26. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	16 431 138	12 638 208
Transfer revenue		
Government grants & subsidies	59 370 554	49 291 921
Fines	11 200	28 550
	75 812 892	**61 958 679**

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

27. Employee related costs

Basic	21 259 494	18 338 428
Bonus	1 856 648	1 222 371
Medical aid - company contributions	1 316 303	940 234
UIF	191 866	160 660
SDL	180 798	244 187
Other payroll levies	16 427	11 305
Pension	2 475 553	1 752 000
Travel, motor car, accommodation, subsistence and other allowances	1 412 669	1 524 471
Overtime payments	780 431	362 549
Long-service awards	147 000	15 000
Acting allowances	387 974	59 940
Housing benefits and allowances	301 666	417 472
Post employment benefits expense - Defined benefit	1 654 000	2 165 000
	31 980 829	**27 213 617**

Include in compensation for employees above is remuneration of senior management disclosed per individual portfolios below:

Remuneration of Municipal Manager - CM Mbekela

Annual Remuneration	561 780	535 319
Travel, motor car, accommodation, subsistence and other allowances	378 626	233 399
Contributions to UIF, Medical and Pension Funds	152 943	138 513
Back pay	23 763	9 208
	1 117 112	**916 439**

Remuneration of Chief Finance Officer - SP Gwana (17 September 2007 - 30 June 2013)

Annual Remuneration	-	415 595
Travel, motor car, accommodation, subsistence and other allowances	-	383 443
Contributions to UIF, Medical and Pension Funds	-	45 736
Back pay	-	6 979
	-	**851 753**

Remuneration of Director: Corporate Services - JM Mashiya (February 2013 - April 2013)

Annual Remuneration	-	105 116
Travel, motor car, accommodation, subsistence and other allowances	-	69 631
Contributions to UIF, Medical and Pension Funds	-	2 148
	-	**176 895**

Remuneration of Director: Technical Services - JF Van Dalen

Annual Remuneration	435 914	416 125
Travel, motor car, accommodation, subsistence and other allowances	209 599	281 322
Contributions to UIF, Medical and Pension Funds	108 574	8 456
Other	18 305	6 067
	772 392	**711 970**

Remuneration of Director: Strategic Services - L Nonyongo (01 February 2013 - 18 October 2013)

Annual Remuneration	128 661	175 193
Travel, motor car, accommodation, subsistence and other allowances	69 626	117 458
Contributions to UIF, Medical and Pension Funds	22 627	3 587

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

27. Employee related costs (continued)

Leave	20 233	-
	241 147	**296 238**

A number of vacancies currently exist within senior management. These positions are currently occupied by staff in acting capacities. Acting allowances are included in employee remuneration.

28. Remuneration of councillors

Mayor/Speaker	681 489	659 105
Chief Whip	214 748	193 734
Councillors	1 712 946	1 505 094
Councillors’ pension contribution	-	22 122
Councillors' allowances	593 204	576 268
Councillors' medical aid	-	37 229
	3 202 387	**2 993 552**

Remuneration of Mayor (Speaker) - N Tekile

Salary	460 901	417 157
Allowances	220 588	120 591
	681 489	**537 748**

Chief Whip - N Moli

Salary	138 270	96 995
Allowances	76 478	59 320
	214 748	**156 315**

The salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the constitution.

In-kind benefits

The Mayor is a full-time councillor. The mayor is provided with an office and secretarial support at the cost of the Council.

The Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Mayor has use of a Council owned vehicle for official duties.

The Mayor holds the position of the speaker as well.

29. Depreciation and amortisation

Property, plant and equipment	21 584 175	18 790 902
Intangible assets	160 163	99 102
	21 744 338	**18 890 004**

30. Finance costs

Non-current borrowings	363 604	371 847
Finance leases	1 217 736	111 763
Other interest paid	773 947	633 293
	2 355 287	**1 116 903**

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

31. Debt impairment

Debt impairment	2 902 683	2 766 946

32. Bulk purchases

Electricity	5 398 995	6 643 699

33. General expenses

Advertising	803 190	917 001
Auditors remuneration	3 356 514	2 232 648
Bank charges	136 112	154 277
Cleaning	35 920	43 224
Commission paid	40 762	35 299
Consulting and professional fees	4 749 828	1 728 377
Entertainment	224 174	205 704
Insurance	263 798	86 137
Conferences and seminars	133 288	82 478
Promotions and sponsorships	43 920	30 441
Magazines, books and periodicals	113 640	26 358
Motor vehicle expenses	7 399	56 704
Legal expenses	413 461	687 103
Fuel and oil	986 626	724 828
Postage and courier	213 296	209 357
Protective clothing	213 055	127 766
Project maintenance costs	331 914	733 752
Security (Guarding of municipal property)	-	6 160
Software expenses	392 719	378 515
Subscriptions and membership fees	462 000	400 000
Telephone and fax	1 501 249	1 527 198
Training	426 236	252 846
Travel - local	604 445	332 880
Refuse	106 831	77 110
Electricity	241 649	126 877
Water	2 317 554	1 037 490
Database cleansing	2 025 502	-
Valuation roll	1 167 360	-
Free basic electricity	261 270	132 580
Valuaton costs	859 317	1 522 835
Life saving services	302 280	349 184
Finance Management Grant	1 355 261	1 091 061
Ward Committee expense	135 534	100 507
Ward Council expense	829 210	736 356
LED projects	316 620	699 560
Membership fees	84 078	173 507
Other expenses	2 287 790	1 431 194
	27 743 802	**18 457 314**

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

34. Cash generated from operations

	2014	2013 Restated
Deficit	(10 890 134)	(10 386 081)
Adjustments for:		
Depreciation and amortisation	21 744 338	18 890 004
Finance costs - Finance leases	1 217 736	111 763
Debt impairment	2 902 683	2 766 946
Movements in retirement benefit assets and liabilities	1 654 000	2 025 000
Movements in provisions	579 465	409 964
Transfer of assets	6 936 157	11 389 657
Changes in working capital:		
Receivables from exchange transactions	(170 524)	(9 169 809)
Debt Impairment	(2 902 683)	(2 766 946)
Other receivables from non-exchange transactions	(5 036 561)	4 848 697
Payables from exchange transactions	1 047 083	4 414 255
VAT	5 799 430	(4 786 390)
Unspent conditional grants and receipts	(10 403 454)	(167 921)
	12 477 536	**17 579 139**

35. Financial instruments disclosure

Categories of financial instruments

2014

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	8 707 948	8 707 948
Receivables from non-exchange transactions	-	5 248 295	5 248 295
Cash and cash equivalents	2 165 936	-	2 165 936
	2 165 936	**13 956 243**	**16 122 179**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	16 255 556	16 255 556
Unspent conditional grants and receipts	1 955	1 955
Other financial liabilities - current liability portion	2 112 376	2 112 376
Other financial liabilities - non-current portion	3 902 422	3 902 422
Consumer deposits	80 503	80 503
	22 352 812	**22 352 812**

2013

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	8 537 421	8 537 421
Other receivables from non-exchange transactions	-	211 734	211 734
Cash and cash equivalents	16 641 430	-	16 641 430
	16 641 430	**8 749 155**	**25 390 585**

Financial liabilities

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

. Financial instruments disclosure (continued)

	At amortised cost	Total
Payables from exchange transactions	15 208 473	15 208 473
Unspent conditional grants and receipts	10 405 409	10 405 409
Consumer deposits	80 503	80 503
Other financial liabilities	2 654 170	2 654 170
	28 348 555	**28 348 555**

36. Auditors' remuneration

Fees	3 356 514	2 232 648

37. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Infrastructure	16 707 596	7 186 976
• Community	1 050 393	2 744 803
• Other	12 396 034	14 685 278
	30 154 023	**24 617 057**

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated.

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

38. Contingencies

Contingent liabilities

Ms N Blom	-	100 000
Mr RF Butler - Labour matter	-	30 000
Mr. G. Deponselle - Contravention of Section 4 of the National Building Regulations Act	35 000	-
East Coast Rate Payers and Residents Forum - This matter deals with the proposed agreement the East Coast Rate Payers and Residents Forum	100 000	50 000
Inverlochy Trust Shareblock (Pty) Ltd - Conveyancing	10 000	-
Jet Vest/Great Kei Municipality - High court application to set aside deed of sale	1 000 000	1 000 000
W Kavie - Medical incapacity investigation	-	15 000
Ms M Kema - Collection of costs	-	5 000
L N Mafanya - Illegal building works	35 000	-
Mr MN Mkhohlakali - Labour dispute	100 000	100 000
Mr. G. Naude - Contravention of Section 4 of the National Building Regulations Act	35 000	-
Ms OS Ngqele - Claim for severance packages	-	30 000
Mr X Nkathazo, Mr M Phangindawo, Mr D Gwabeni and Ms N Sopotela - Incapacity hearings and investigations	-	100 000
Pick 'n Build Hardware / Great Kei Municipality	5 000	-
Mr. Z. Plata- Represent GKM at Bargaining Council, CCMA and Labour Court	42 516	-
Ms M Siko, Mr JJF Vermeulen, Ms S Ncoko and Mr N Dokwana - Labour matters	-	50 000
Matters involving the National Building Regulations Act, Building Standards Act of 1977 and Land Ordinance Act of 1985 as well as clause 4.1 of the Building Regulations	35 000	-
	1 397 516	**1 480 000**

Uncertainty exists as to the timing or amount of these contingent liabilities

Offences, Penalties and Forefeiture of the Environment Conservation Act 1989

The Municipality does not have a permit for the landfill site. This is in contravention of the above mentioned Act. The Municipality may be liable for a fine not exceeding R100 000.

Contingent assets

Pending litigation and claims

Revenue collection - Outstanding rates and taxes	-	250 000
Lion of Africa - Claiming in favour of the Muncipality	-	5 000
	-	**255 000**

Uncertainty exists as to the timing or amount of these contingent assets. During the 2013/2014 financial year, these pending claims were settled.

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

39. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report
Members of key management	Key management of the Municipality have relationships with businesses as indicated below:
Chris Mbekela	Member in CMM Mind Power
Nomathamsanqa Daphe	Director NomathamsanqaDaphe
Councillors	Refer to the list of councillors disclosed under general information. Councillors of the Municipality have relationships with businesses as indicated below:
Nosipho Ngabeyewa	Member of Thunga Trading Co Opt
Niv Nevana	Member Ikwenxura General Trading
Employees	Employees of the Municipality have relationships with businesses as indicated below:
Yolisa R Simayile	Director Sinoyoli Pty Ltd
N Kokobana	Partner Sakuphumla
Mhlomi Bathandwa	Member in Kazimla Multi Service
Lusapho L Matshoba	Director Hlela Solutions
Phindile Patrick Ludidi	Member in Milani Mahlubi Trading
Zacharia Viwe Mapukata	Director Kupukani Construction
	Director Vinom Projects
	Director Beaveal Consulting
	Director Nduto Trading

Councillors, executive management and staff received salaries for services rendered relating to their employment within the Municipality, refer notes 27 and 28. No other related party transactions took place during the year.

Figures in Rand	2014	2013 Restated

40. Prior year adjustments

Finance leases

Upon review of GRAP 13 it was identified that certain leases were incorrectly recognised as operating leases in prior periods. Property, plant and equipment along with the corresponding finance lease liability, finance charges and expenditure have been adjusted to correct this error.

Property, Plant and Equipment

During the prior year certain properties were incorrectly disclosed at their fair value. This error has been corrected in order to align the accounting for these transactions to be in line with the accounting policy relating to property, plant and equipment of the municipality.

During the prior year casting errors existed in the fixed asset register relating to infrastructure assets. The casting errors resulted in infrastructure assets being materialy overstated.

During the current period it was identified that other property, plant and equipment was incorrectly cast on the asset register resulting in the overstatement of the cost of other property, plant and equipment.

During the year it was identified that repairs and maintanance was incorrectly capitalised in prior periods resulting in other property, plant and equipment being incorrectly capitalised.

Inventory

During the current year it was identified that certain RDP houses disclosed as inventory had been transferred to the relevant beneficiaries in prior periods. These RDP houses should have been expensed in the periods in which they were transferred to the beneficiaries.

During the current year it was identified that certain items of property, plant and equipment were duplicated in the inventory listing.

The municipality is required in terms of the GRAP standards to account for all assets meeting the definition and recognition criteria as disclosed in GRAP 17. The municipality is also required to consider the substance over the legal form of a transaction. RDP houses handed over to beneficiaries but not yet transferred are legally owned by the municipality however, the risks and rewards consequential to ownership have passed in substance to the beneficiaries. These properties no longer meet the definition of an asset as these properties are not in the control of the municipality and the municipality is not expected to derive any economic benefit upon transfer of the property.

During the year it was identified that certain properties were incorrectly recorded as inventory instead of investment property due to incorrect processing in prior periods.

Heritage assets

A heritage asset was erroneously omitted in the recording of th nominal value of heritage assets in the prior year. This has now been corrected.

Provision for rehabilitation of landfill site

In the prior year the estimated useful life of the landfill site was estimated to be 187 years. In the current year a notice of closure certificate was received from the Department instructing the municipality to close the landfill site within a period of 4 years. This significant difference in useful life is considered to be an error due to the large variance between the two periods.

The correction of the errors results in adjustments as follows:

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

40. Prior year adjustments (continued)

Statement of financial position

Property, plant and equipment		
Balance previously reported	-	315 049 707
Reclassification of operating lease to finance lease	-	944 565
Correction of landfill site previously understated	-	811 683
Correction of overstatement of land	-	(101 629 158)
Adjustment of infrastructure assets previously overstated	-	(1 109 566)
Correction of price incorrectly allocated	-	(387 856)
Correction of casting error on other property, plant & equipment	-	(1 182 444)
Correction of accumulated depreciation on other property, plant & equipment	-	137 500
Correction of accumulated depreciation on finance lease assets	-	(512 718)
Correction of accumulated depreciation of landfill asset	-	(357 378)
	-	**211 764 335**

Inventory		
Balance previously reported	-	131 330 090
Reclassification of RDP houses transferred to beneficiaries	-	(23 373 575)
Correction of items duplicated in both inventory and property plant and equipment.	-	(71 682 000)
Reclassification of land previously recorded as RDP houses to investment property	-	(3 800 965)
Correction of RDP houses which do not meet the definition of inventory or an asset	-	(6 648 940)
	-	**25 824 610**

Investment Property		
Balance previously reported	-	107 486 712
Reclassification of land previously recorded as RDP houses to investment property	-	3 800 965
	-	**111 287 677**

Heritage Assets		
Balance previously reported	-	7
Correction of casting error	-	1
	-	**8**

Finance leases obligation (current portion)		
Balance previously reported	-	73 492
Correction of finance lease previously recorded as operating lease.	-	625 951
	-	**699 443**

Finance leases obligation (non-current portion)		
Balance previously reported	-	223 223
Reclassification of operating lease to finance lease	-	123 207
	-	**346 430**

VAT Receivable		
Balance previously reported	-	8 438 482
VAT adjustment as a result of reclassification	-	(39 645)
VAT adjustment on finance lease	-	1 629
	-	**8 400 466**

Provision for rehabilitation of landfill site		
Balance previously reported	-	1 015 478

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated
40. Prior year adjustments (continued)		
Correction of provision for landfill site previously understated	-	1 455 798
	-	**2 471 276**

Accumulated surplus

Balance previously reported	-	552 029 333
Recognition of depreciation of finance leases previoulsy recognised as operating leases pre 2013	-	(512 718)
Reclassification of RDP houses transferred to beneficiaries	-	(23 373 575)
Adjustment of infrastructure assets	-	(1 109 566)
Correction of items duplicated in both inventory and property plant and equipment.	-	(71 682 000)
Correction of RDP houses which do not meet the definition of inventory or an asset	-	(6 648 940)
Correction of overstatement of land	-	(101 629 158)
Reversal of payments for finance leases previously recognised as operating leases pre 2013	-	367 394
Recognition of interest for finance leases previously recognised as operating leases pre 2013	-	(308 134)
Correction of interest on provision for landfill site	-	(644 115)
Reversal of accumulated depreciation	-	98 779
Correction of finance lease rental and interest	-	226 558
Correction of finance lease current and non current portion effects on finance cost	-	(447 047)
Effects of accumulated depreciation on landfill	-	(357 378)
Correction of casting error on other property, plant & equipment	-	(1 182 444)
	-	**344 826 989**

Statement of Financial Performance

Depreciation

Balance previously reported	-	18 470 784
Depreciation expense on other ppe	-	38 721
Depreciation on finance lease	-	201 811
Depreciation on landfill	-	178 688
	-	**18 890 004**

Finance costs

Balance previously reported	-	650 933
Interest on finance lease for assets previously classified as operating lease	-	111 763
Finance portion of provision calculation for landfill	-	354 207
	-	**1 116 903**

Lease rentals on operating leases

Balance previously reported	-	520 159
Lease rental adjustment	-	(520 159)
	-	**-**

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

40. Prior year adjustments (continued)

Cash flow statement

Cash flow from operating activities		
Balance previously reported	-	17 001 773
Effects on adjustments on operations	-	577 366
	-	**17 579 139**

Cash flow from investing activities		
Balance previously reported	-	27 846 885
Effects on adjustments on investing activities	-	111 515
	-	**27 958 400**

Cash flow from financing activities		
Balance previously reported	-	167 452
Effects on adjustments on financing activities	-	465 852
	-	**633 304**

41. Comparative figures

Certain comparative figures have been reclassified to better reflect the nature of the transactions. These changes to comparatives are not considered material.

42. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk), credit risk and liquidity risk.

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. Risk management is carried out by the finance department with the assistance of operating devisions, under policies approved by the accounting officer.

Liquidity risk

The Municipality's risk relates to funds available for future commitments. The Municipality manages liquidity risk through ongoing review of future commitments, projected grant receipts and cash forecasting. Cash flow forecasts are prepared and borrowing facilities are monitored.

Figures in Rand	2014	2013 Restated

42. Risk management (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Municipality. Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Trade receivables comprise a widespread customer base. Credit exposure is controlled by the application of the Municipality's credit control and debt collection policies.

The carrying amount of financial assets respresent the Municipality's maximum exposure to credit risk in relation to these assets.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument		
Trade and other receivables from exchange transactions	8 707 948	8 537 421
Receivables from non exchange transactions	5 248 295	211 734
Cash and cash equivalents	1 654 301	16 641 430
Short term deposits	542 169	2 246 130

Market risk

Market risk is the the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Municipality is exposed to market risk through interest rate risk.

Interest rate risk

The Municipality's interest bearing assets are included under cash and cash equivalents, trade receivables from exchange transactions and receivables from non-exchange transactions. The Municipality's income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of the interest bearing assets.

At year end, financial liabilities exposed to interest rate risk include those other financial liabilities disclosed in note 14 to the annual financial statements.

Balances with banks, deposits, call accounts and current accounts attract interest at rates that vary with the South African prime rate. The Municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the statement of financial performance.

Trade debtors in arrears are charged interest at a rate of 1% per month.

Surplus funds are invested with banks in interest bearing accounts refer note 8 to the annual financial statements.

The sensitivity analysis below assess the exposure by the Municipality to floating interest rates. Assuming that those financial instruments affected remain unchanged for the full financial year and that all other methods and asumptions used remain unchanged, the impact of a 100 basis point change in the interest rate would result in an increase or decrease of R21 659 (2013: R166 720) in the net surplus for the period.

43. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

44. Events after the reporting date

No events having financial implications are requiring disclosure in the annual financial statements occurred subsequent to 30 June 2014.

Notes to the Financial Statements

Figures in Rand	2014	2013 Restated

45. Unauthorised expenditure

Opening balance	6 943 240	6 943 240
Depreciation	6 684 278	-
Employee costs	1 994 880	-
Finance costs	1 185 796	-
	16 808 194	**6 943 240**

Incident - this is mainly due to inadequate budgeting and monitoring of expenditure.
Measures to address - the expenditure was reported to Council on 28 August 2013. A Council committee was appointed to investigate the causes of the expenditure and recoverability thereof. The committee did not condone the expenditure. Expenditure incurred in the current year was reported to Council on 29 August 2014. The Council resolved to send the expenditure to MPAC for further investigation.

46. Fruitless and wasteful expenditure

Opening balance	6 562 280	6 020 322
Fruitless and wasteful expenditure incurred in the current year	566 405	541 958
	7 128 685	**6 562 280**

Incident - this is mainly due to interest and penalties charged because of late payments of suppliers.

Measures to address - the expenditure was reported to Council on 28 August 2013. A Council comittee was appointed to investigate the causes of the expenditure and recoverability thereof. The committee did not condine the expenditure. Expenditure incurred in the current year was reported to Council on 29 August 2014. The Council resolved to send the expenditure to MPAC for further investigation.

47. Irregular expenditure

Opening balance	115 660 894	113 626 051
Add: Irregular Expenditure - current year	675 311	2 034 843
	116 336 205	**115 660 894**

Analysis of expenditure awaiting condonation per age classification

Details of irregular expenditure – current year

Goods not procured in terms of supply chain management precripts

The following transactions were concluded without declarations of interest attached	37 915
The following transactions were concluded without tax clearence certificates attached	104 005
The following transactions were concluded without declarations of interest and tax clearence certificates attached	533 391
	675 311

Details of irregular expenditure condoned

There was no irregular expenditure condoned during the year.

Figures in Rand	2014	2013 Restated

47. Irregular expenditure (continued)

Details of irregular expenditure recoverable (not condoned)

The expenditure was reported to council on 28 August 2013 and a coucil committee was appointed to investigate the causes of the expenditure and the recoverability thereof. The committee concluded that none of the expenditure would be recoverable. Expenditure incurred in the current year was reported to Council on 29 August 2014. The Council resolved to send the expenditure to MPAC for further investigation.

Details of irregular expenditure not recoverable (not condoned)

The expenditure was reported to council on 28 August 2013 and a coucil committee was appointed to investigate the causes of the expenditure and the recoverability thereof. The committee concluded that none of the expenditure would be recoverable. Expenditure incurred in the current year was reported to Council on 29 August 2014. The Council resolved to send the expenditure to MPAC for further investigation.

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2014	2013
Current year subscription / fee	450 000	400 000
Amount paid - current year	(225 000)	(400 000)
	225 000	**-**

Material losses

	2014	2013
Distribution losses	3 124 701	2 932 229

Audit fees

	2014	2013
Opening balance	1 330 872	1 220 255
Current year fee	3 356 514	2 232 648
Amount paid - current year	(2 272 945)	(2 122 031)
	2 414 441	**1 330 872**

During the year the municipality entered into a repayment arrangement with the external auditors to repay long outstanding debts via instalments over a 24 month period until April 2016.

PAYE and UIF

	2014	2013
Opening balance	-	183 603
Current year fee	4 111 552	3 533 122
Amount paid - current year	(4 111 552)	(3 716 725)
	-	**-**

Pension and Medical Aid Deductions

	2014	2013
Opening balance	-	222 383
Current year subscription / fee	1 710 035	3 555 122
Amount paid - current year	(1 710 035)	(3 777 505)
	-	**-**

VAT

	2014	2013
VAT receivable	2 601 036	8 400 466

48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

There were no Councillors that had arrear accounts outstanding for more than 90 days at 30 June 2014. No Councillors had arrear accounts outstanding for more than 90 days at 30 June 2013.

49. Budget differences

Material differences between budget and actual amounts

Revenue from exchange transaction

1.Over-budgeting on service charges was due to an expectation that the municipality was going to identify more properties to bill as a result of the revenue enhancement project.
2. Rental of facilities and equipment is R203 213 below budget, the municipality anticipated more use of it’s facilities during the period.
3. Licences & Permits is R776 769 below budget, the municipality anticipated more income during the period.
4. Commission received is R271 332 is above budget, due to an under budget of the vote.
5. Other income is R1 481 632 below budget, the municipality anticipated more income during the period.
6. Interest received is above budget as the municipality charged interest on outstanding debt during the year.

Revenue from non-exchange transaction

1. Property rates are R3 220 246 below budget as the budget was based on inaccurate valuation and tariff information.
2. An amount of R1 240 277, was withheld by Treasury due to conditional grants that were not spent during the previous finacial year.
3. Fines are R10 800 below budget, the difference is considered as immaterial.

Expenditure

1. Personnel costs are under budgeted by R1 994 880 due to an under budget of the vote.
2. Remuneration of councillors is R78 730 below budget due to an over budgeting of the vote.
3. Depreciation was under budgeted for by R6 684 278 due to a significant increase in infrastructure assets during the year and transfer of completed projects fromwork-in-progress to infrastructure assets.
4. Finance charges is R1 185 796 above budget due to an under budget of the vote.
5. Debt impairment is R 1 097 317 below budget due to over budgeting, based on last year's actual figures.
6. The unspent amount is due to projects that are not yet paid and over budgeting.
7. Bulk purchases is R 1 101 005 below budget due to over budgeting, based on last year's actual figures.
8. General expenses are R1 980 863 below budget, due to an over budget of the vote.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to pages xxx to xxx in the annual report